

PRA RULEBOOK: CRR FIRMS: LARGE EXPOSURES AMENDMENT INSTRUMENT 2019**Powers exercised**

- A. The Prudential Regulation Authority (“PRA”) makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 (“the Act”):
- (1) Section 137G (the PRA’s general rules); and
 - (2) Section 137T (general supplementary powers).
- B. The rule-making powers referred to above are specified for the purpose of section 138G(2) (Rule-making instrument) of the Act.

Pre-conditions to making

- C. In accordance with section 138J of the Act (consultation by the PRA), the PRA has consulted the Financial Conduct Authority. After consulting, the PRA published a draft of proposed rules and had regard to representations made.

Reciprocating measure

- D. On 1 July 2018, by a Decision of the Haut Conseil de stabilité financière and pursuant to Article 458(2) of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment (“CRR”), France implemented a tightening of the large exposure limit provided for in Article 395(1) of the CRR, applicable to exposures to certain French counterparties (“the French measure”).
- E. On 1 February 2019, the European Systemic Risk Board issued Recommendation ESRB/2018/8, recommending reciprocation of the French measure by other member states of the European Union.
- F. On 17 July 2019, HM Treasury gave notice under Article 458(6) of the CRR of its decision under Article 458(5) of the CRR to recognise the French measure in the United Kingdom.

PRA Rulebook: CRR Firms: Large Exposures Amendment Instrument 2019

- G. The PRA makes the rules in the Annex to this instrument.

Commencement

- H. This instrument comes into force on 1 January 2020.

Citation

- I. This instrument may be cited as the PRA Rulebook: CRR Firms: Large Exposures Amendment Instrument 2019.

By order of the Prudential Regulation Committee

11th October 2019

Annex

Amendments to the Large Exposures Part

In this Annex new text is underlined and deleted text is struck through.

Part

LARGE EXPOSURES

Chapter content

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5. LARGE EXPOSURES – STRICTER REQUIREMENT FOR EXPOSURES OF G-SIIS AND O-SIIS TO CERTAIN FRENCH COUNTERPARTIES

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1 APPLICATION AND DEFINITIONS

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1.2 In this Part the following definitions shall apply:

Capital Buffers Regulations

means the Capital Requirements (Capital Buffers and Macro-prudential Measures) Regulations 2014 (SI 2014/894).

...

French NFC

means a counterparty that has its registered office in France, and which, at its level and at the highest level of consolidation of its *group*, belongs to the non-financial corporations sector as defined in point 2.45 of Annex A to Regulation (EU) No 549/2013 of the European Parliament and of the Council of 21 May 2013 on the European system of national and regional accounts in the European Union.

group of connected French NFCs

means

- (a) where a French NFC is part of a *group* and the ultimate parent of the *group* has its registered office in France, the *group* and all its connected entities within the meaning of point (39) of Article 4(1) of the CRR;
- (b) where a French NFC is part of a *group* and the ultimate parent of the *group* has its registered office outside France, the set of French NFCs in the same *group* and all other entities in France or abroad over which those French NFCs have direct or indirect control, or which are economically dependent on them, within the meaning of point (39) of Article 4(1) of the CRR.

G-SII

means a person identified by the PRA in accordance with Part 4 of the Capital Buffers Regulations.

highly indebted

in relation to a French NFC or a group of connected French NFCs, means that, at the highest level of *group* consolidation, the following two conditions are met, each condition being calculated based on accounting items defined in accordance with the applicable standard, as presented in the *group's* financial statements, such statements certified where appropriate by a chartered accountant:

- (a) the first condition is that the leverage ratio is greater than 100%, where the leverage ratio is the ratio between total debt net of cash, and equity; and
- (b) the second condition is that the financial charges coverage ratio is less than 3, where the financial charges coverage ratio is the ratio between, on the one hand, earnings before interest and tax (EBIT), and, on the other hand, interest and similar charges.

...

O-SII

means a person identified by the *PRA* in accordance with Part 5 of the *Capital Buffers Regulations*.

parent financial holding company in a Member State

means (in accordance with point (26) of Article 3(1) of the *CRD*) a *financial holding company* which is not itself a *subsidiary* of an *institution* authorised in the same *EEA State*, or of a *financial holding company* or *mixed financial holding company* set up in the same *EEA State*.

parent institution in a Member State

means (in accordance with point (24) of Article 3(1) of the *CRD*) an *institution* authorised in an *EEA State* which has an *institution* or *financial institution* as *subsidiary* or which holds a *participation* in such an *institution* or *financial institution*, and which is not itself a *subsidiary* of another *institution* authorised in the same *EEA State* or of a *financial holding company* or *mixed financial holding company* set up in the same *EEA State*.

parent mixed financial holding company in a Member State

means (in accordance with point (28) of Article 3(1) of the *CRD*) a *mixed financial holding company* which is not itself a *subsidiary* of an *institution* authorised in the same *EEA State*, or of a *financial holding company* or *mixed financial holding company* set up in the same *EEA State*.

qualifying exposure

means an *exposure* which has an original exposure value greater than or equal to €300 million, calculated in accordance with Articles 389 and 390 of the *CRR* before taking into account the effect of credit risk mitigation techniques and exemptions set out in Articles 399 to 403 of the *CRR* (and as required to be reported in accordance with Article 9 of the *Supervisory Reporting ITS*).

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5 LARGE EXPOSURES – STRICTER REQUIREMENT FOR EXPOSURES OF G-SIIS AND O-SIIS TO CERTAIN FRENCH COUNTERPARTIES

Application and interpretation

- 5.1 This Chapter applies only to *firms* that are *CRR firms* and are, or are controlled by, a *G-SII* or an *O-SII*.
- 5.2 In 5.6 and 5.7, a reference to an *exposure* to multiple counterparties means the sum of the *exposures* to the individual counterparties.

Level of application

- 5.3 A *firm* which is a *parent institution in a Member State* must comply with this Chapter on the basis of its *consolidated situation*.
- 5.4 A *firm* controlled by a *parent institution in a Member State* or a *parent financial holding company in a Member State* or a *parent mixed financial holding company in a Member State*

must comply with this Chapter on the basis of the *consolidated situation* of that parent institution or holding company.

5.5 A firm to which 5.3 and 5.4 do not apply must comply with this Chapter on an individual basis.

Materiality threshold

5.6 The reduced limit in 5.7 does not apply unless a firm meets each of the following conditions on the applicable basis determined in accordance with 5.3 to 5.5:

- (1) The sum of the firm's exposures to all French NFCs is greater than €2 billion;
- (2) The firm has a qualifying exposure to a French NFC or a group of connected French NFCs, but considering, in the case of a group of connected French NFCs the ultimate parent of which is outside France, only exposures to the French NFCs in the group as required to be reported in templates C 28.00 and C 29.00 of Annex VIII to the Supervisory Reporting ITS; and
- (3) The firm has an exposure meeting the conditions in (2) which is greater than 5% of its eligible capital, after taking into account the effect of the credit risk mitigation techniques and exemptions in accordance with Article 399 to 403 of the CRR.

Reduced limit on exposures

5.7 The limit on exposures as a proportion of capital referred to in Article 395(1) of the CRR is reduced to 5% in respect of a qualifying exposure to a highly indebted French NFC or a highly indebted group of connected French NFCs.

Externally defined terms

Term	Definition source
Consolidated situation	Article 4(1)(47) CRR
Eligible capital	Article 4(1)(71) CRR
Financial holding company	Article 4(1)(20) CRR
Subsidiary	Article 4(1)(16) CRR
Institution	Article 4(1)(3) CRR
Mixed financial holding company	Article 4(1)(21) CRR
Financial institution	Article 4(1)(26) CRR
Participation	Article 4(1)(35) CRR
EEA State	Section 425 FSMA